BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation	)	CC Docket No. 92-135

COMMENTS OF RONAN TELEPHONE COMPANY

Ronan Telephone Company, pursuant to Section 1.415(b) of the Commission's rules, respectfully submits these comments in response to the Notice of Proposed Rulemaking ("NPRM"), in the above-captioned proceeding.[1]

I. Introduction

Ronan Telephone Company is a small average schedule company serving 2,500 access lines in Montana. On October 8, 1987, Ronan Telephone Company filed reply comments with the Commission in CC Docket No. 78-72, Phase I, proposing a price cap model that would be simpler and less costly to administer than the National Exchange Carrier Association's ("NECA") use of cost company data to calculate average schedule formulas or the collection of actual cost data from average schedule companies.[2] Ronan Telephone

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1 In re Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, Notice of Proposed Rulemaking, CC Docket No. 92-135, FCC 92-258 (released July 17, 1992).

2 Ronan Telephone Company filed its reply comments in response to the Commission's Public Notice in In re National Exchange Carrier Association Modification to Average Schedules, CC Docket No. 78-72, Phase I, DA 87-979 (released August 10, 1987).

Company welcomes this initiative by the Commission to consider regulatory reform that recognizes the unique circumstances facing small independent local exchange carriers. However, Ronan Telephone Company is concerned that substantial barriers currently exist that preclude small average schedule companies from participating in regulatory reforms designed to bring the benefits gained from incentive regulation to ratepayers and carriers serving rural America.

II. The Commission Should Adopt Optional Incentive Regulation for Average Schedule Companies to Give Them the Opportunity to Realize Higher Earnings through Efficiency Gains and Reduced Administrative Burdens

The Commission proposes an optional incentive plan as a first, but not a final, step in the long term regulatory reform for small independent local exchange carriers.[3] To elect optional incentive regulation, proposed Section 69.3 would require average schedule companies to withdraw from all NECA pools, relinquish their average schedule status, and file cost studies. The substantial expense of filing cost studies would effectively preclude most average schedule companies from participating in the proposed incentive regulation plan. Therefore, Ronan Telephone Company urges the Commission to adopt optional incentive regulation which uses average schedule settlements to define the authorized earning zone for subset 3 carriers.

An incentive plan for small average schedule companies would be simpler and less costly to administer than NECA's use of cost company data to calculate average schedule formulas or the

[3] NPRM at ¶ 4.

collection of actual cost data from average schedule companies. NECA would no longer need to prepare, file and defend annual revisions to the average schedule formulas and small average schedule companies, such as Ronan Telephone Company, would not be required to respond to data requests from NECA. The inaccuracies associated with demand projections and cost growth factors would be eliminated by an incentive plan for average schedule companies. Such an incentive plan would also remove the perverse incentives to inflate rate bases, which NECA's shift toward cost-of-service regulation for average schedule companies has created. Section 69.606(a) of the Commission's rules currently requires NECA to calculate the average schedules so that disbursements to an average schedule company simulate the disbursements that would be received by a cost company that is representative of average schedule companies.

A reasonable point of departure for an incentive plan for average schedule companies would be the current average schedule formulas. These average schedule formulas have been scrutinized closely by the Commission and have not been found patently unlawful. For the first period, interstate access charges would be calculated on the basis of an average schedule company's most recent annual settlements from the NECA pool. This is the exact same methodology currently used by average schedule companies that have filed individual access tariffs pursuant to Section 61.39(b)(2). Under such an incentive plan, average schedule companies would continue to target their rates at each biennial filing to reflect the average schedule pool settlement the carrier would have received if the carrier had continued to participate in the NECA pool. As an incentive to become more efficient, the earning zone for the incentive plan would extend from 10% below the target average schedule settlement to 10% above the target average schedule settlement.

An incentive plan for average schedule companies should also provide a greater degree of pricing flexibility to enable small local exchange carriers to respond to competitive pressures and changes resulting from efficiency gains. Ronan Telephone Company recommends three baskets in the incentive plan for average schedule companies: common line, switched traffic sensitive, and special access with categories of services within each basket. Within each two-year tariff period, aggregate rates for each basket must remain unchanged. However, average schedule companies would be allowed to adjust rates within each service category by no more than 10% up or down during the two-year tariff period. Filing of rate adjustments within such limits would be permitted on 14 days' notice, with a presumption of lawfulness.

Ronan Telephone Company recommends that the Commission adopt this incentive plan regulation for subset 3 average schedule companies. With such an incentive plan, there should be no need for the many specious assumptions, projections and estimates underlying NECA's calculation of the average schedule formulas. Incentive plan regulation will reverse the trend toward the more costly regulation of average schedule companies that is caused by making the average schedule formulas more comparable to cost-of-service regulation.

III. In this Proceeding, the Commission Should Eliminate Barriers that Prohibit Average Schedule Companies from Taking Advantage of the Cost Savings and Efficiency Gains Available with the Proposed Regulatory Reform

There are two major barriers creating risks that preclude Ronan Telephone Company from considering incentive plan regulation or the filing of a Section 61.39 streamlined access tariff for carrier common line access service. First, current regulations would force small independent local exchange carriers to make long-term support payments to NECA's common line pool and deny them transitional and long-term support if they participated in the regulatory reform proposed by the Commission in this proceeding. Second, after canceling a Section 61.39 carrier common line access tariff or withdrawing from incentive plan regulation, the Commission's proposals may prohibit an average schedule company from again participating in NECA's pools to receive average schedule settlements.

Small average schedule companies may desire to leave the NECA common line pool so as to be in a better position to manage their earnings and increase incentives to become more efficient. However, many small average schedule companies serve geographically dispersed local subscribers and receive higher than average disbursements from the carrier common line pool. Without transitional and long-term support, these small average schedule companies would be unable to withdraw from the NECA pool without increasing carrier common line charges in excess of NECA's rates. Higher carrier common line rates would make it less attractive for competitive interexchange carriers to serve these rural markets.

To enable small average schedule companies to leave NECA's carrier common line pool and participate in the regulatory reform proposed by the Commission in this proceeding, Ronan Telephone Company recommends that the Commission amend its rules to provide transitional and long-term support payments to small independent local exchange carriers leaving NECA's carrier common line pool. Furthermore, Ronan Telephone Company urges the Commission to exempt such small independent local exchange carriers from paying long term support if they leave NECA's carrier common line pool to take advantage of the proposals in this proceeding. Section 69.612(b) of the Commission's rules currently would deny transitional support payments to small independent local exchange carriers that leave NECA's carrier common line pool to file their own access tariffs. Section 69.612(b) requires small companies to leave NECA's carrier common line pool effective January 1, 1990 to qualify to receive transitional support. Furthermore, Section 69.612(a) would force small independent local exchange carriers that leave NECA's carrier common line pool as a consequence of this proceeding, to pay long-term support. It is very unlikely that any small independent local exchange carrier will participate in the proposed optional incentive plan or file a Section 61.39 carrier common line access tariff if it is forced to render long-term support payments.

Another major impediment to the success of the Commission's proposed regulatory reform is the prohibition that does not allow average schedule companies to return to NECA's pools, if they discover that they have chosen to participate in a regulatory plan that is injurious and incompatible with their unique circumstances. The Commission stated "we are committed to maintaining revenue neutrality among the options established in this rulemaking so that the mere election of a regulatory system does not affect the company's revenues."[4] The risk that the Commission's proposals will not be revenue neutral is a major barrier that will dissuade most, if not all, small independent local exchange carriers from participating in this regulatory reform.

The Commission tentatively concluded in this proceeding that "efficiency incentives and pooling are incompatible."[5] Ronan Telephone Company strongly disagrees. A company that receives disbursements from NECA's pools on the basis of average schedule settlements has a greater incentive to become more efficient than a cost company. An increase in an average schedule company's costs do not necessarily translate into increased earnings. The application of average schedule formulas has proven successful in increasing efficiency and significantly reducing the administrative and regulatory costs for small local exchange carriers. Therefore, Ronan Telephone Company urges the Commission to permit an average schedule company to return to NECA's pools if it withdraws from optional incentive regulation or cancels its Section 61.39 access tariff.

IV. Conclusion

Ronan applauds the Commission for taking this very important first step in addressing regulatory reform for small independent local exchange carriers. As an average schedule company, Ronan

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4 NPRM at ¶ 3.

5 NPRM at ¶ 47.

Telephone Company is extremely interested in new regulatory options that would permit it to reduce its administrative costs and increase potential for greater efficiency and technological development. However, any regulatory reform that results in leaving NECA's carrier common line pool will be ineffective unless it provides transitional and long-term support payments, an exemption from long-term support obligations, and the option to retain revenue neutrality by returning to NECA's pools. The incentive regulation for average schedule companies described herein would remove the perverse incentives to inflate rate bases, which results from current Section 69.606, and would enable small telephone companies to concentrate more on the efficient provision of quality telecommunications services to the public.

WHEREFORE, Ronan Telephone Company respectfully requests that the Commission adopt the modifications to its proposed regulatory reform for small independent local exchange carriers as described herein.

Respectfully submitted,

RONAN TELEPHONE COMPANY

By: Jay Wilson Preston

Jay Preston
President
Ronan Telephone Company
312 Main Street, SW
Ronan, Montana 59864

August 28, 1992

CERTIFICATE OF SERVICE

I, Brenda D. Falk, do hereby certify that true and correct copies of the foregoing Comments of Ronan Telephone Company were served by hand delivery, this 28th day of August 1992, to the persons on the attached service list.

Brenda D. Falk

Brenda D. Falk

SERVICE LIST

Chairman Alfred C. Sikes
Federal Communications Commission
1919 M St., N.W., Room 814
Washington, D.C. 20554

Commissioner James H. Quello
Federal Communications Commission
1919 M St., N.W., Room 802
Washington, D.C. 20554

Commissioner Sherrie P. Marshall
Federal Communications Commission
1919 M St., N.W., Room 826
Washington, D.C. 20554

Commissioner Andrew C. Barrett
Federal Communications Commission
1919 M St., N.W., Room 844
Washington, D.C. 20554

Commissioner Ervin S. Duggan
Federal Communications Commission
1919 M St., N.W., Room 832
Washington, D.C. 20554

Cheryl A. Tritt, Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

Gregory J. Vogt, Chief
Tariff Division, CCB
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

Colleen Boothby, Deputy Chief
Tariff Division
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

James D. Schlichting, Chief
Policy & Program Planning Division
Federal Communications Commission
1919 M Street, N.W., Room 544
Washington, D.C. 20554

Judith Nitsche, Chief
Tariff Review Branch
Federal Communications
Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

Andrew Mulitz
Tariff Division
Federal Communications
Commission
1919 M Street, N.W., Room 531
Washington, D.C. 20554

Downtown Copy Center
1919 M Street, N.W., Room 246
Washington, D.C. 20554